

1966

Fifty-Third Annual Report

AR18



Northern Electric
COMPANY LIMITED

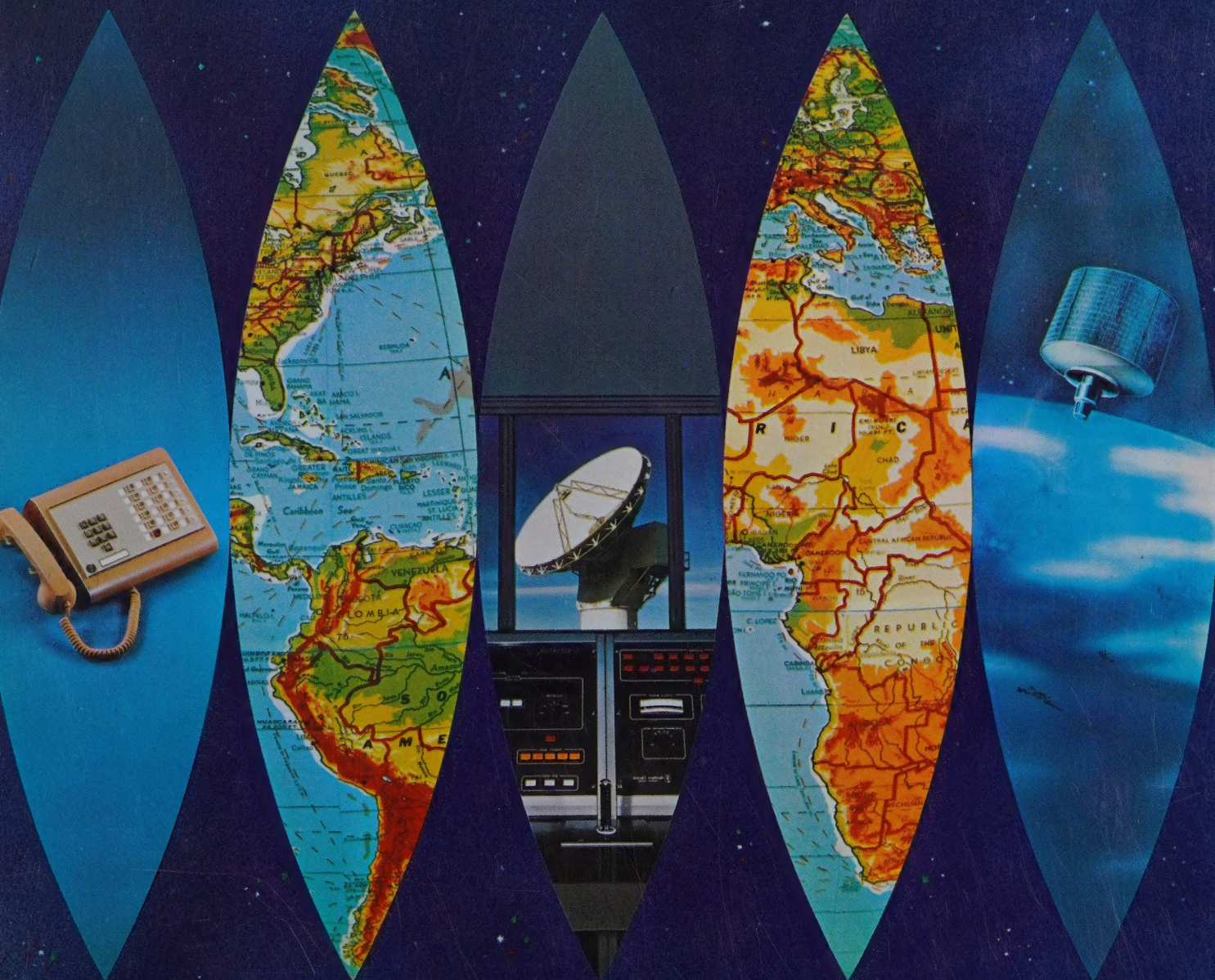


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COVER: Northern Electric is contributing to the technological progress which is shrinking distance by providing telecommunication facilities to more and more people throughout the world.

Si vous désirez une version française de ce rapport, veuillez en faire la demande au service des relations publiques de la Compagnie Northern Electric, case postale 6123, Montréal, Qué.

DIRECTORS

PAUL BIENVENU
President
Catelli Food Products Limited

****ARNOLD J. GROLEAU**
Executive Vice-President
The Bell Telephone Company of Canada

***R. DICKSON HARKNESS, D.S.O., M.C.**
Director of other prominent
Canadian Companies

FREDERICK JOHNSON
Director of other prominent
Canadian Companies

***R. HOLLEY KEEFLER, C.B.E., D.S.O.**

HERBERT H. LANK
Chairman of the Board
Du Pont of Canada Limited

ALEXANDER G. LESTER
Executive Vice-President
The Bell Telephone Company of Canada

***VERNON O. MARQUEZ**

J. ANGUS OGILVY, Q.C.
Senior partner of the firm of Cate, Ogilvy,
Bishop, Cope, Porteous & Hansard

***CYRIL A. PEACHEY**

GÉRARD PLOURDE
President
United Auto Parts Inc.

****ROBERT C. SCRIVENER**
Executive Vice-President
The Bell Telephone Company of Canada

***MARCEL VINCENT**
President
The Bell Telephone Company of Canada

EDWARD C. WOOD
Chairman of the Board,
Sogemines Limited

**Members of the Executive Committee*

***Elected on 2 February 1967*

OFFICERS

President and Chairman of the Board

R. HOLLEY KEEFLER, C.B.E., D.S.O.

Executive Vice-Presidents

VERNON O. MARQUEZ	Operations
CYRIL A. PEACHEY	Planning

Vice-Presidents

*WILFRED D. E. ANDERSON	Research and Development
GASTON R. BOYER	Comptroller
FRASER F. FULTON, O.B.E.	Administration
JOHN R. HOUGHTON	*Montreal Manufacturing
W. RITCHIE JOHNSTON	Marketing Service
ANDREW C. KOVATS	International Operations
JACK G. LITTLE	Ontario Manufacturing
NORMAN H. MARTIN, M.B.E.	Treasurer
RAYMOND C. SMYTHE	Quebec Manufacturing

Secretary

JOHN G. HARPER

**Replaces A. B. Hunt, who is appointed Research Consultant, effective 4 January 1967, pending retirement.*

Consolidated Results in Brief

	1966	1965
Sales	\$400,216,739	\$358,143,198
Income Taxes	936,000	2,891,000
Net Earnings	9,603,482	7,960,799
Per Share	8.63	7.86
Dividends	7,231,250	6,581,250
Per Share	6.50	6.50
Capital Expenditures	23,019,769	15,339,085
Working Capital	118,638,636	93,130,433
Employees (31 December)	23,864	19,632

Products bearing Northern's trademark are exported to many countries of the world. This telephone cable is being shipped to Thailand.



Report of the Directors to the Shareholders for the Fifty-third Year of Operations Ended 31 December 1966

15 February 1967

Results

1966 was a challenging year for Northern Electric marked by several outstanding accomplishments. Among these were a substantial increase in manufacturing production, the build-up of capacity to meet the even heavier volume of products to be delivered in 1967 and a meaningful penetration into the highly competitive international markets for communication products.

The value of consolidated sales for the year amounted to \$400,216,739 an increase of \$42,073,541 over 1965. Consolidated net earnings amounted to \$9,603,482 for 1966 and were \$1,642,683 higher than in the previous year.

Substantial increases in cost, absorbed during the year, for research and for developing and introducing many new products, affected the earnings.

In 1966 manufacturing production increased rapidly throughout the year. A more moderate rate of production growth is planned for 1967 as the levels reached for most products by the end of 1966 will be adequate to satisfy the deliveries required during 1967. As a consequence,

Results *Cont'd*

1967 production will be more in phase with sales bringing the timing of expenditures into closer relationship with revenues. Under these conditions further gains can be made in improving the many new production techniques introduced during 1965 and 1966.

Significant changes were made in 1966 in the system of measuring and reporting results within the Company. A series of productivity indices was designed to monitor, on a continuing basis, the efficiency with which the many resources of the operating units are being used.

A total of \$40,000,000 in new capital was raised during the year. \$15,000,000 of 6¼% Sinking Fund Debentures were sold in April and \$25,000,000 was received from the issue of 250,000 shares—100,000 early in the year and a further 150,000 in December.

Dividends paid during the year amounted to \$7,231,250 at the annual rate of \$6.50 a share on 1,112,500 shares. This was an increase of \$650,000 over 1965.

Research and Development

Research and development facilities have grown rapidly, year by year, since 1958 when the Laboratories were formally established. During 1966 alone the Company's research effort, including improvements to existing products and processes, represented an expenditure of more than \$25,000,000. The heavy investment during the past years in scientific staff and laboratories is now showing tangible results evidenced in many of the new products now being manufactured and marketed.

Because of the increasing demand for more complex switching equipment, a new branch laboratory adjacent to Toronto Works was authorized and will be constructed in 1967.

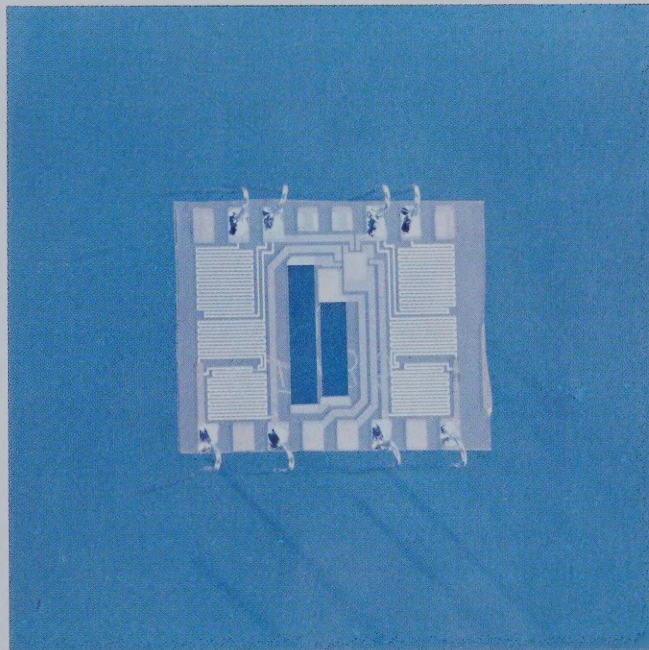
After several years of exploratory research at the Laboratories, production was authorized for thin film and other solid state microcircuit devices. Microcircuits provide a new design concept of major significance to communication equipment and are considered to be the greatest single advance in solid state technique since the transistor.

The Advanced Devices Centre in Ottawa, located adjacent to the Research and Development Laboratories, where scientific and engineering personnel work as a production team on thin film and other solid state microcircuit devices.

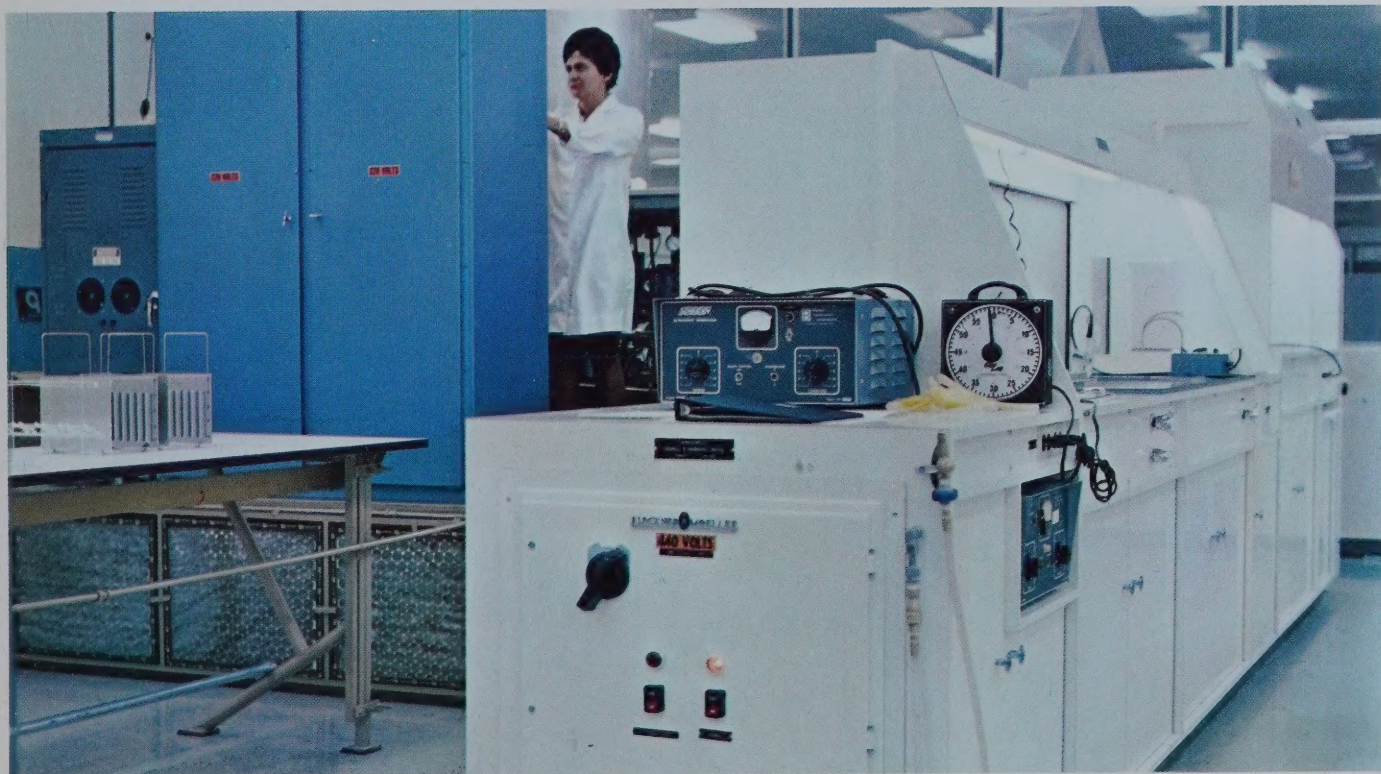


Research and Development *Cont'd*

Tantalum Thin Film Device—A section of the microcircuit for an experimental **DIGITONE** dial. This particular section (.9 inches long x .7 inches wide) contains seven resistors for a filter circuit.



Microcircuit Production—Glass plates are subjected to chemical cleaning operations which provide a suitable surface for adhesion of tantalum film. A thin film of tantalum is then deposited on this surface in the sputtering chamber shown in the background.



Engineering and Manufacturing

The manufacturing units of the Company operated close to maximum capacity during 1966, working multiple shifts. The new facilities added during the year will permit a further increase in production during 1967.

Despite the pressure of expansion on the schedules of switching equipment, the manufacture and installation of the first electronic switching system required by Bell Canada to serve *exp067*, was on schedule for cut-over in January 1967.

The expanding switching programme necessitated the building of an addition to Toronto Works and the establishment of Laurentien Works in Montreal. Together these expansions have already added seventy percent additional space for the manufacture of switching systems. By the end of 1967 the space for switching manufacture will be double that of 1965.

Several new manufacturing locations were added in 1966. A new Works, employing approximately one hundred people, was started in Saint John, New Brunswick, to assemble telephone sets for the Atlantic Provinces and to manufacture key-set cords for all Company markets. Additional cable manufacturing space for making switchboard and enamelled wires was provided in Montreal at a location close to Lachine Works. A new cable factory is under construction in Calgary and will be in production early in 1967.

New products, such as ferrites for carrier applications and for electronic switching, demand a high degree of accuracy and closely controlled manufacturing processes. Testing techniques are being computerized and this has required a completely new concept of test set design.

Communications technology is becoming more complex every day and the Company's two thousand engineers, scientists and other technical staff are responding to these rapidly changing conditions with energy and imagination.

New Pulp Insulating Process—Copper wire passing through the electrolytic cleaner prior to entering the cylinder machine where pulp insulation is applied. (The apparent ice formation in the background is, in fact, jets of rinsing water.)



New Products

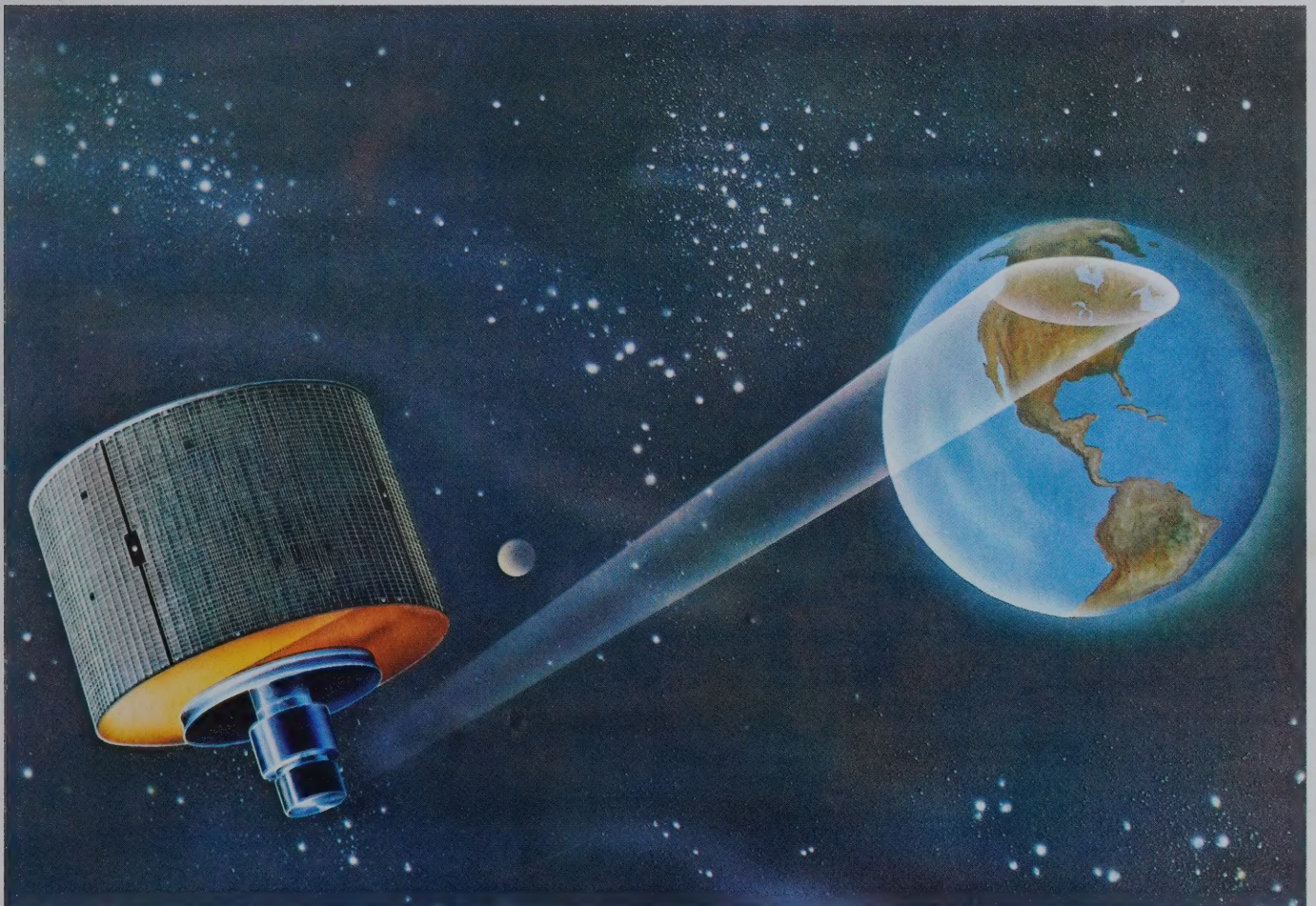
The Company is manufacturing electronic switching offices required for the establishment of a modernized defence communication network in Canada. These offices will use a new electronic switching system which is a military adaptation of the commercial system.

Following successful development of a satellite precision tracking station for the Defence Research Telecommuni-

cations Establishment, Bell Canada authorized development of a communication satellite ground station to test the use of satellites for expanded and improved communication with the Arctic.

A miniature crossbar switch, known as the MINIBAR developed in the Research Laboratories, was authorized for manufacture. It will have application in new switching systems now under development.

Northern Electric and Bell Canada are studying the application of satellites to the Canadian telecommunications network.



Marketing

A combined distribution and repair centre is being constructed in the city of Montreal North. It will provide improved service in the Montreal area and is scheduled for completion by mid 1967.

A more up-to-date computerized inventory control system was introduced during the year. In conjunction with direct data-phone ordering by Bell Canada, it will provide better control of merchandise stocks in telephone distributing houses. In due course, the principles of this system will be extended to other Company distributing operations.

Time on this computer, installed in the Ottawa Laboratories, is shared by twenty-four remote terminals in Company locations at Montreal and Ottawa. More advanced computer information systems are constantly being developed to improve customer service and reduce costs. A major computer application in 1966 was the development of programmes for electronic switching systems.



International Operations

Activities in the international market showed significant progress in 1966 resulting in orders amounting to approximately \$17,736,000.

Modern switching equipment is now being manufactured in Canada for the Hellenic Telecommunications Organization to a value of about \$5,000,000, for installation in the Athens-Piraeus area. The Company has received an order valued at about \$25,000,000 from the Turkish Ministry of Posts, Telephones and Telegraphs for the supply of switching equipment, telephone sets and cables. Both the Greek and the Turkish orders are being financed by the Canadian Government through the Export Credits Insurance Corporation. Substantial orders have been obtained for switching systems in Nigeria, Kenya and other countries.

Engineers and technicians from international customers are receiving theoretical and practical training at Northern Electric. Officials of telephone operating organizations from many parts of the world toured the Company's manufacturing and research facilities during the year.



Byron Carapanayotis (centre front) President, The Hellenic Telecommunications Organization, Greece, visits the Research and Development Laboratories.

Exhibit at the First Asian International Trade Fair, Bangkok, Thailand, December 1966.



Prospects

While it is expected that sales will continue to increase in 1967 at about the same rate as in 1966, the high production levels reached at the end of 1966 should enable the Company to meet the demand anticipated for 1967. Switching equipment production will be an exception as it is planned to continue an upward trend throughout 1967.

Total orders on hand at 31 December 1966 were \$52,323,000 higher than in the previous year.

In developing its long term business plans the Company continues to pay close attention to the Annual Reviews of the Economic Council of Canada.

Organization

R. C. Smythe, who was General Manager of the Cable Division, was appointed a Vice-President during the year. W. D. E. Anderson was appointed Vice-President, Research and Development, in January 1967, replacing A. B. Hunt who was appointed Research Consultant, pending his retirement. A re-arrangement of the responsibilities of the Manufacturing Vice-Presidents, to become effective in 1967, was made on an area basis. The changed responsibilities are reflected in the listing of officers which forms part of this report.



People

The Company has had an Employees' Suggestion Plan since 1942. Since this plan was started, over \$600,000 has been paid to employees for suggestions adopted and in 1966 alone over \$80,000 was paid in awards. The largest single award since the inception of the plan, \$4,841, was paid in 1966 to Murray R. Bedford of Toronto Works. A special campaign was organized for January 1967 to celebrate the 25th anniversary of the plan.

Employee numbers were increased by 4,232 in 1966 and special arrangements had to be made in all divisions for their training. At the end of 1966 there were 23,864 people working for Northern Electric.

Continual changes and the rapid expansion of facilities have made it more and more important to rely on the adaptability and knowledge of the men and women of the Company. Your directors extend their appreciation to all employees for the vigour with which they met the challenges of the business during 1966.

For the Directors

Chairman

Murray R. Bedford, Toronto Works, receives his Suggestion Award from J. G. Little, Vice-President, Ontario Manufacturing.

Financial Review

Operating Results

The Company's consolidated sales of all products for 1966 totalled \$400,216,739, of which 71% consisted of products manufactured by the Company.

Sales to The Bell Telephone Company of Canada and its subsidiaries totalled \$227,263,550, an increase of \$32,306,550 over the previous year. Sales to other Canadian customers totalled \$162,770,867, an increase of \$13,546,572.

Net consolidated earnings for the year amounted to \$9,603,482, equivalent to \$8.63 per share. While earnings were \$1,642,683 over the previous year they were adversely affected by higher research expenditures and by costs arising from the high rate of growth experienced

in the period. The rate of input of new orders has been steadily increasing and substantial differences existed during the year between the rate of production and the rate at which products were completed, shipped, and billed. Accordingly, inventories increased by \$32,143,953.

Income taxes amounted to \$936,000 and were at a lower rate than in 1965 due to increased tax incentive benefits resulting from higher scientific research expenditures.

Working Capital

Working Capital totalled \$118,638,636 at 31 December 1966, an increase of \$25,508,203 over the previous year. The following is a comparative statement of source and application of funds:

Source of Funds

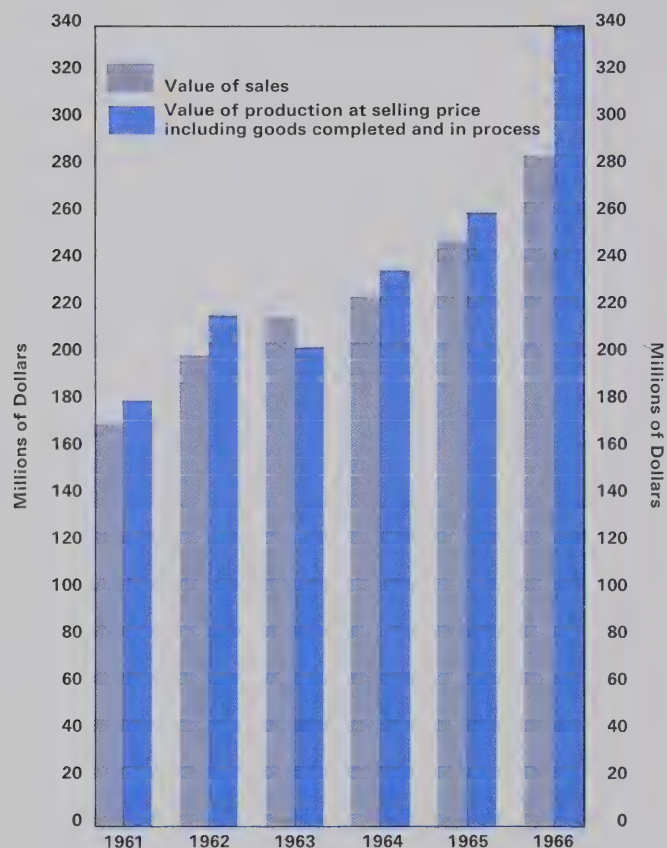
	1966	1965
Total Sales.....	\$400,216,739	\$358,143,198
Less: Expenses requiring Funds.....	381,391,657	341,263,439
Income Taxes.....	936,000	2,891,000
Net Flow from Operations.....	17,889,082	13,988,759
Deferred Credit for Taxes.....	1,615,000	6,375,496
Increase in Long-term Debt.....	10,791,000*	—
Increase in Capital Stock.....	25,000,000	—
Adjustment of Prior Years' Income Taxes.....	—	3,426,071
Other.....	—	49,750
	<u>55,295,082</u>	<u>23,840,076</u>

Application of Funds

Expenditures for Plant and Equipment (Net).....	22,460,629	15,057,361
Reduction in Long-term Debt.....	—	1,529,000
Dividends paid to Shareholders.....	7,231,250	6,581,250
Other.....	95,000	—
	<u>29,786,879</u>	<u>23,167,611</u>
Increase in Working Capital.....	25,508,203	672,465

*See Note 4 to the Financial Statements.

PRODUCTION AND SALES OF MANUFACTURED PRODUCTS



Long-term Debt

\$15,000,000 of 6¼% twenty-year Sinking Fund Debentures were issued at par on 15 April 1966. A Sinking Fund provision requires the Company to redeem \$750,000 of principal in each of the years 1971-1985.

Under the Sinking Fund provisions further redemptions were made in 1966 of \$526,000 Series A, 3¼% First Mortgage Bonds, and \$1,000,000 4½% Debentures.

Capital Stock

250,000 additional shares at \$100.00 per share were issued during the year.

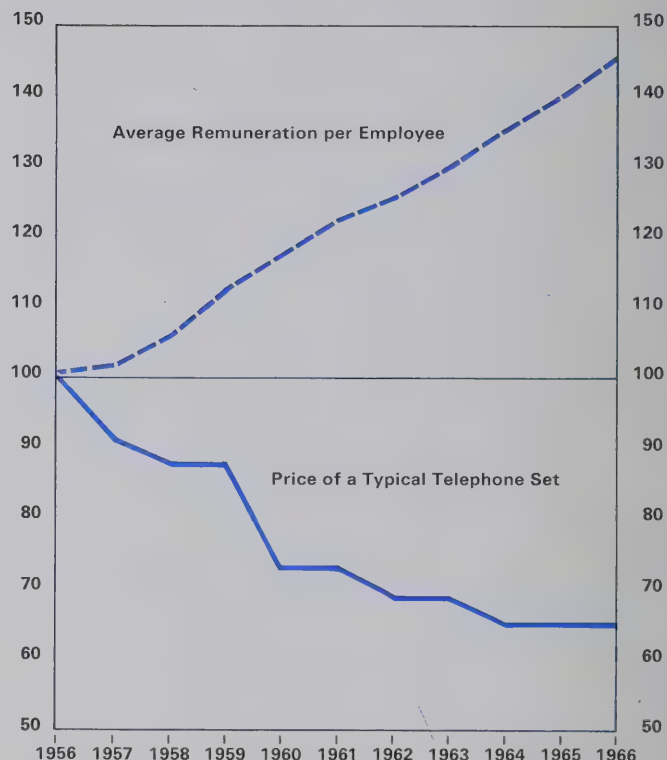
Capital Expenditure

Investment in new plant and equipment during the year amounted to \$23,019,769, bringing the total investment in plant to \$167,188,784.

Employment Costs

Total employment costs, at \$144,017,156 for the year, reflected increases in employee numbers and in rates of

INDEX OF REMUNERATION PER EMPLOYEE AND PRICE INDEX OF A TYPICAL TELEPHONE SET SHOWING THAT BENEFITS OF IMPROVED PRODUCTIVITY HAVE BEEN SHARED BY BOTH EMPLOYEES AND CUSTOMERS



pay. Included in total employment costs are the following supplementary employee benefits:

Payments to Pension Trust Fund . .	\$4,998,093
Payments to Government Pension Plans	1,600,007
Sickness and Accident Benefits . . .	1,353,189
Death Benefits	362,402
Disability Pensions	32,918

Service pensions are paid out of the Pension Trust Fund established with the Montreal Trust Company as trustees, set up and maintained to provide for current and future service pensions. The fund is irrevocably committed to service pension purposes. Under an accrual programme based on actuarial studies, regular payments are made to the fund by the Company. The fund is not a part of the assets of the Company and is not reflected in the Balance Sheet.

As of 31 December 1966, there were 921 former employees on pension.

Consolidated Statement of Earnings

For the Year Ended 31 December 1966

(With Comparative Figures for the Year Ended 31 December 1965)

	1966	1965
Sales.....	\$400,216,739	\$358,143,198
Cost of Sales including selling, general administrative expense and transfer in 1966 to Accumulated Provisions of \$239,000....	364,597,042	329,321,369
Earnings from Operations before deducting Research and Development Expense*.....	35,619,697	28,821,829
Research and Development Expense.....	22,632,312	16,360,100
	12,987,385	12,461,729
Income from Investments.....	254,203	282,255
	13,241,588	12,743,984
Interest Charges		
Mortgage Bonds and Debentures.....	2,478,936	1,843,337
Miscellaneous.....	223,170	48,848
	2,702,106	1,892,185
Earnings before Income Taxes.....	10,539,482	10,851,799
Provision for Income Taxes (Note 1).....	936,000	2,891,000
Net Earnings for the Year.....	\$ 9,603,482	\$ 7,960,799

* After deducting the following:

Depreciation on Plant and Equipment.....	\$ 7,921,900	\$ 6,374,960
Remuneration paid to Directors, including salaries to Directors who are also Company officers.....	231,567	210,400

The notes attached to the Financial Statements are an integral part thereof.

Consolidated Balance Sheet

as at 31 December 1966

(With Comparative Figures as at 31 December 1965)

ASSETS

	1966	1965
Current		
Cash	\$ 398,236	\$ 81,197
Marketable Securities (Note 2)	60,750	60,750
Accounts Receivable		
—Affiliated Companies	23,255,709	26,499,335
—Other	26,485,947	30,613,029
Property held for sale, under Lease-back Arrangements, at cost	5,209,927	—
Inventories (Note 3)	110,154,493	78,010,540
Prepaid Expense	611,171	603,583
	<u>166,176,233</u>	<u>135,868,434</u>
 Investment in Shares of Associated Company (at cost)	 <u>355,000</u>	 <u>355,000</u>
 Plant and Equipment (at cost)		
Land and Buildings	43,659,343	41,671,865
Machinery and Equipment	123,529,441	104,607,767
	<u>167,188,784</u>	<u>146,279,632</u>
 Less:		
Accumulated Depreciation	93,906,235	87,659,102
	<u>73,282,549</u>	<u>58,620,530</u>
	<u><u>\$239,813,782</u></u>	<u><u>\$194,843,964</u></u>

The notes attached to the Financial Statements are an integral part thereof.

Approved on behalf of the Board { V. O. Marquez, Director
Edward C. Wood, Director

LIABILITIES

	1966	1965
Current		
Due to Banks	\$ 1,087,907	\$ 9,271,173
Notes Payable	4,530,000	—
Accounts Payable and Accrued Liabilities		
—Affiliated Companies	235,191	157,358
—Other	34,997,513	31,462,864
Taxes Payable (Note 1)	2,474,986	817,606
Sinking Fund Deposits due within one year (Note 4)	4,212,000	1,029,000
	<u>47,537,597</u>	<u>42,738,001</u>
Long-term Debt (Note 4)	47,000,000	36,209,000
Deferred Credit—Taxes		
Applicable to Future Years (Note 1)	13,877,045	12,262,045
Accumulated Provisions (Note 5)	5,339,000	5,100,000
	<u>113,753,642</u>	<u>96,309,046</u>
SHAREHOLDERS' EQUITY (Note 6)		
Capital Stock (Note 7)		
Authorized—1,500,000 shares of no par value		
Issued—1,262,500 shares (1965—1,012,500 shares)	58,975,000	33,975,000
Retained Earnings	63,185,140	60,659,918
Contingency Reserve	3,900,000	3,900,000
	<u>126,060,140</u>	<u>98,534,918</u>
	<u>\$239,813,782</u>	<u>\$194,843,964</u>

G. R. Boyer, C.A., Vice-President and Comptroller

Submitted with our report dated 10 February 1967.

Touche, Ross, Bailey and Smart, Chartered Accountants

Consolidated Statement of Retained Earnings

For the Year Ended 31 December 1966

(With Comparative Figures for the Year Ended 31 December 1965)

	1966	1965
Balance at beginning of Year	\$60,659,918	\$55,824,548
<i>Add:</i> Net Earnings for the Year	9,603,482	7,960,799
Adjustment of Prior Years' Income Taxes	—	3,426,071
Discount on purchase of 4½% Sinking Fund Debentures	55,000	29,750
Profit on Disposal of Land	247,990	—
	<u>70,566,390</u>	<u>67,241,168</u>
<i>Deduct:</i> Dividends Paid	7,231,250	6,581,250
Commission on sale of 6¼% Sinking Fund Debentures, 1966 Series	150,000	—
	<u>7,381,250</u>	<u>6,581,250</u>
Balance at end of Year	<u>\$63,185,140</u>	<u>\$60,659,918</u>

The notes attached to the Financial Statements are an integral part thereof.

Notes to the Consolidated Financial Statements

Note 1—Income Taxes

The Provision has been reduced as a result of claiming special allowances for scientific research expenditures.

The Deferred Credit—Taxes Applicable to Future Years increased by \$1,328,000 as a result of claiming Capital Cost Allowances in excess of depreciation recorded at straight-line rates, and an adjustment for 1965 transferred from Taxes Payable.

Note 2—Marketable Securities

Includes shares and bonds valued at cost including amortization of discounts and accrued interest.

Market Value—1966 \$48,313

1965 \$54,000

Note 3—Inventories

Based on physical inventory as at 30 September 1966 and 1965 (valued at cost or market, whichever was lower, except copper in raw material and work-in-process which was valued on a base-stock method), adjusted for operations to 31 December 1966 and 1965.

Notes to the Consolidated Financial Statements *cont'd*

Note 4—Long-term Debt

		1966		1965
First Mortgage Sinking Fund Bonds, Series "A" 3¼% due 2 January 1967				
Authorized and Issued.....		\$ 6,000,000		\$ 6,000,000
Less: Redeemed under Sinking Fund Provisions.....	\$ 3,788,000		\$ 3,262,000	
Sinking Fund Instalments included in Current Liabilities due 1 October 1966.....	—		269,000	
due 2 January 1967 and 1966.....	2,212,000	6,000,000	260,000	3,791,000
		<u>—</u>		<u>2,209,000</u>
4½% Sinking Fund Debentures due 1 November 1976				
Authorized and Issued.....		20,000,000		20,000,000
Less: Redeemed under Sinking Fund Provisions.....	6,000,000		5,000,000	
Debentures held for Sinking Fund Instalment due 1 November 1966.....	—		500,000	
Sinking Fund Instalment included in Current Liabilities due 1 November 1967 and 1966.....	1,000,000	7,000,000	500,000	6,000,000
		<u>13,000,000</u>		<u>14,000,000</u>
5½% Sinking Fund Debentures 1962 Series due 15 December 1982				
Authorized and Issued.....		20,000,000		20,000,000
Less: Sinking Fund Instalment included in Current Liabilities due 15 December 1967.....		1,000,000		
		<u>19,000,000</u>		
6¼% Sinking Fund Debentures 1966 Series due 15 April 1986				
Authorized and Issued.....		15,000,000		—
		<u>\$47,000,000</u>		<u>\$36,209,000</u>

Note 5—Accumulated Provisions

	1966	1965
Deferred Profit on Incomplete Contracts.....	\$ 1,039,000	\$ 779,000
Equalization of Research and Development Expense.....	—	1,402,000
Pensioners' Death Benefits.....	4,300,000	2,919,000
	<u>\$ 5,339,000</u>	<u>\$ 5,100,000</u>

Note 6—Shareholders' Equity

The Trust Agreements governing the Company's \$20,000,000—4½% Sinking Fund Debentures, \$20,000,000—5½% Sinking Fund Debentures, 1962 Series, and \$15,000,000—6¼% Sinking Fund Debentures, 1966 Series, impose a restriction on distribution to or for the account of its shareholders whereby no distribution may be made which will reduce the aggregate of the Capital and Consolidated Retained Earnings below \$37,500,000.

Note 7—Capital Stock

The Company issued a total of 250,000 shares of No Par Value Capital Stock at a price of \$100 per share during 1966. A further 200,000 shares have been approved for issue in February 1967 at a price of \$100 per share.

Note 8—Contingent Liability

Property taxes amounting to \$1,100,356 are in dispute.

TOUCHE, ROSS, BAILEY & SMART

HALIFAX	SAINT JOHN	CHARTERED ACCOUNTANTS	UNITED STATES OF AMERICA
QUEBEC	CAP DE LA MADELEINE		GREAT BRITAIN
MONTREAL	OTTAWA	ROYAL BANK BUILDING	AND OTHER COUNTRIES
TORONTO	HAMILTON	PLACE VILLE MARIE	THROUGHOUT THE WORLD
LONDON	WINNIPEG		
REGINA	SASKATOON	MONTREAL 2, CANADA	
NORTH BATTLEFORD	CALGARY		
EDMONTON	VANCOUVER	CABLE ADDRESS: "TROBAS"	
	VICTORIA		

AUDITORS' REPORT

The Shareholders,
Northern Electric Company, Limited,
Montreal, Que.

We have examined the accompanying consolidated balance sheet of Northern Electric Company, Limited as at 31 December 1966 and the consolidated statements of earnings and retained earnings for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the aforementioned financial statements present fairly the financial position of the companies as at 31 December 1966 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche, Ross, Bailey & Smart

Chartered Accountants.

Montreal, Que.,
10 February 1967.

Five-year Review

(Millions of Dollars)

	1966	1965	1964	1963	1962
Earnings and Related Data					
Total Sales.....	400.2	358.1	328.1	314.8	293.7
Sales of Company Manufactured Products.....	284.1	249.6	232.3	223.6	206.9
Income from Investments.....	.3	.3	.8	.5	.1
Depreciation on Plant and Equipment.....	7.9	6.4	7.4	8.0	6.8
Interest Charges.....	2.7	1.9	1.9	2.0	1.2
Provision for Income Taxes.....	.9	2.9	8.5	8.0	8.2
Net Earnings for the Year.....	9.6	8.0	10.1	8.4	8.8
Earnings per Share (Dollars).....	8.63	7.86	9.97	8.30	8.70
Dividends per Share (Dollars).....	6.50	6.50	5.65	5.20	4.40
Financial Position at 31 December					
Working Capital.....	118.6	93.1	92.5	91.1	91.2
Plant and Equipment (at cost).....	167.2	146.3	132.4	120.9	112.3
Accumulated Depreciation.....	93.9	87.7	82.4	76.1	72.9
Capital Expenditures.....	23.0	15.3	12.8	9.9	13.0
Long-term Debt.....	47.0	36.2	37.7	39.0	40.2
Shareholders' Equity.....	126.1	98.5	93.7	89.3	84.2
Employment Data					
Total Employment Costs.....	144.0	119.1	107.2	100.1	98.4
Employees (31 December).....	23,864	19,632	18,066	16,953	17,018

Manufacturing Centres

Saint John, New Brunswick
Montreal, Quebec
Montreal North, Quebec
Town of Mount Royal, Quebec

St. Laurent, Quebec
Lachine, Quebec
Ottawa, Ontario
Belleville, Ontario

Brampton, Ontario
Toronto, Ontario
London, Ontario
Calgary, Alberta

Research and Development Laboratories

Ottawa, Ontario

Branch Laboratories Montreal, Lachine, Brampton, London

Sales Offices and Warehouses

St. John's, Newfoundland
Halifax, Nova Scotia
Sydney, Nova Scotia
Saint John, New Brunswick
Moncton, New Brunswick
Chicoutimi, Quebec
Quebec, Quebec
Trois-Rivières, Quebec
Sherbrooke, Quebec
St. Leonard, Quebec
Montreal, Quebec
Ottawa, Ontario

Kingston, Ontario
Toronto, Ontario
Hamilton, Ontario
Kitchener, Ontario
St. Catharines, Ontario
London, Ontario
Sarnia, Ontario
Windsor, Ontario
Kirkland Lake, Ontario
Sudbury, Ontario
Sault Ste. Marie, Ontario
Fort William, Ontario

Winnipeg, Manitoba
Regina, Saskatchewan
Saskatoon, Saskatchewan
Edmonton, Alberta
Calgary, Alberta
Trail, British Columbia
Vernon, British Columbia
Dawson Creek, British Columbia
Prince George, British Columbia
Kamloops, British Columbia
Vancouver, British Columbia
Victoria, British Columbia

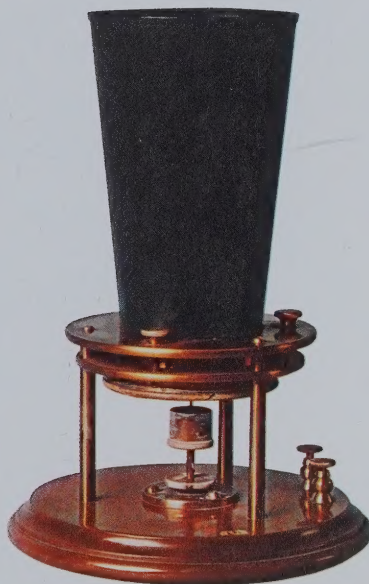


The Eastern Service Centre

500,000 sq. ft. of space—housing sales, marketing, repair and warehousing facilities. It will incorporate modern material handling equipment and many innovations in repair shop layouts.

1867

Canada, after Confederation, consisted of four provinces—Ontario, Quebec, New Brunswick and Nova Scotia. The population was 3,300,000.



Early telephone set used by Alexander Graham Bell

1876

"Mr. Watson, come here; I want you!" These historic words were uttered by Alexander Graham Bell on the 10th of March, 1876.

1882

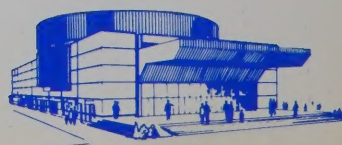
The Manufacturing Department of Bell Canada, later to become Northern Electric Company, Limited, began production of telephone apparatus in 1882.

1967

This year is Canada's 100th Anniversary and there are now ten provinces with a population of 20,000,000.



expo67



*"Visit the Telephone Pavilion at expo67
Montreal, April 28-October 27, 1967"*